

Message Text

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ACTION EUR-12

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DEPT PASS TO TREASURY FOR PELIKAN AND EXIMBANK FOR MINIKES

E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: EC COMMISSION REPORTS ON THE PROPOSED EUROPEAN EXPORT
BANK

REF: EC BRUSSELS 5269

1. SUMMARY: THE EC COMMISSION HAS ADOPTED AN INTERIM REPORT WHICH FAVORS THE ESTABLISHMENT OF AN EUROPEAN EXPORT BANK (EEB). ITS PRIMARY PURPOSE WOULD BE TO FINANCE EXPORTS FOR LARGE, MULTINATIONAL CONTRACTS. THE BANK IS INTENDED TO ENABLE THE EC TO COMPETE ON EQUAL FOOTING WITH US AND JAPANESE CREDIT FACILITIES. THE COMMISSION DECIDED NOT TO SEEK COUNCIL AGREEMENT IN PRINCIPLE TO A BANK AT THIS TIME BUT IT PLANS TO PRESS AHEAD WITH A FINAL PROPOSAL. COMMISSION OFFICIALS BELIEVE IT WILL BE AT LEAST TWO YEARS BEFORE A BANK IS SET UP.
END SUMMARY.

2. THE EC COMMISSION DECIDED ON JULY 23 TO SEND AN INTERIM REPORT ON ITS EEB PROPOSAL TO THE EC FINANCE COUNCIL, EURO-
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PEAN PARLIAMENT AND EC ECONOMIC AND SOCIAL-COUNCIL WHICH ARE

ASKED TO COMMENT ON THE REPORT. (COPIES OF THE REPORT HAVE BEEN SENT TO INTERESTED WASHINGTON AGENCIES, INCLUDING RPE/CLARK AND EXIMBANK/MINIKES.) THE COMMISSION HAS SET THE YEAR END AS ITS DEADLINE FOR A FINAL PROPOSAL BUT COMMISSION OFFICIALS EXPECT THIS DEADLINE TO SLIP. THE REPORT FAVORS ESTABLISHING A BANK WHICH AT FIRST WOULD PROVIDE CREDIT AND INSURANCE FOR MULTINATIONAL CONTRACTS FOR EXPORTS OUTSIDE OF THE EC. THE BANK'S MAIN AIM IS TO ENABLE THE EC TO OFFER A SINGLE CONTRACT IN A SINGLE CURRENCY FOR LARGE, MULTINATIONAL PROJECTS.

3. THE REPORT STATES THAT THE EEB SHOULD BE AN INDEPENDENT EC INSTITUTION AND ITS INITIAL CAPITAL SHOULD COME FROM MEMBER STATE SUBSCRIPTIONS. THE COMMISSION PLANS TO ASSESS POTENTIAL DEMAND FOR THE BANK'S FINANCING BEFORE DETERMINING THE AMOUNT OF A CAPITAL SUBSCRIPTION. COMMISSION OFFICIALS HAVE IN MIND ABOUT A \$500 MILLION CAPITAL SUBSCRIPTION OF WHICH \$100 MILLION WOULD BE PAID IN. THIS DESCRIPTION WOULD BE PRORATED AMONG THE MEMBER STATES. THE BANK WOULD BORROW ON THE INTERNATIONAL CAPITAL MARKETS TO FINANCE MOST OF ITS EXPORTS CREDITS.

4. TO REDUCE FOREIGN EXCHANGE RATE RISKS, THE BANK WILL SEEK TO MATCH ITS BORROWING UNITS WITH THE CURRENCIES IN WHICH IT GIVES CREDITS. MOST OF ITS BORROWINGS WILL BE ON THE EURO-DOLLAR MARKET AND ITS CREDITS WILL BE EXPRESSED IN DOLLARS. THE COMMISSION WOULD ALSO LIKE THE BANK TO EXTEND CREDITS IN EUROPEAN UNITS OF ACCOUNTS (THE MARKET BASKET OF EC CURRENCIES) AND NATIONAL CURRENCIES.

5. THE COMMISSION SUGGESTS THAT AT A LATER STAGE THE EEB MIGHT EXPAND ITS ACTIVITIES. IT COULD FINANCE LARGE INVESTMENT PROJECTS WHICH ARE NOT MULTINATIONAL IN CHARACTER BUT EXCEED THE CAPABILITIES OF INDIVIDUAL MEMBER STATE CREDIT INSTITUTIONS. THE EEB MIGHT ALSO OFFER INVESTMENT GUARANTEES AGAINST POLITICAL RISKS IN ORDER TO ENCOURAGE FOREIGN PRIVATE DIRECT INVESTMENT. IN THE RAW MATERIALS AREA, THE BANK COULD FINANCE THE STOCKPILING OF SELECTED COMMODITIES AND LONG TERM SUPPLY CONTRACTS OF ESSENTIAL AGRICULTURAL COMMODITIES. THE EEB MIGHT ALSO PLAY A ROLE IN PROVIDING LIMITED OFFICIAL USE

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AID TO DEVELOPING COUNTRIES. COMMISSION OFFICIALS, HOWEVER, BELIEVE THESE LONG TERM PROPOSALS ARE NOT REALISTIC AND THEY DO NOT EXPECT THEM TO BE INCLUDED IN THE COMMISSION'S FINAL PROPOSAL.

6. THE REPORT ASSERTS THAT US AND JAPAN HAVE SOPHISTICATED SYSTEMS OF EXPORT SUBSIDIES WHICH PUT EC FIRMS AT A DISADVANTAGE IN COMPETING FOR CERTAIN TYPES OF EXPORT CONTRACTS.

THESE DISADVANTAGES ARE LIKELY TO INCREASE BECAUSE OF THE GROWING NUMBER OF LARGE EXPORT PROJECTS WHICH INVOLVE MORE THAN ONE MEMBER STATE. THE REPORT CITES AIRCRAFT SALES AND LARGE TURNKEY PLANTS AS EXAMPLES OF PAST EXPORT SALES THAT HAVE BEEN LOST BECAUSE OF INADEQUATE EC CREDIT FACILITIES. THE EEB, THE REPORT SAYS, IS NOT INTENDED TO LAUNCH A WAR OF EXPORT CREDIT TERMS. THE EC, INSTEAD, WANTS TO LIMIT SUCH COMPETITION BY JOINING IN THE PROPOSED GENTLEMEN'S AGREEMENT ON EXPORT CREDITS. NEVERTHELESS, THE COMMISSION WANTS THE EC TO BE ABLE TO MATCH THE CREDIT TERMS OF ITS MAIN COMPETITORS.

7. COMMENT: EC COMMISSION OFFICIALS REPORT THAT EC BUSINESS FIRMS HAVE RESPONDED FAVORABLY TOWARD THE PROPOSAL. SOME MEMBER STATES, ESPECIALLY THE FRG, HAVE RESERVATIONS, HOWEVER. IN FACT, FRG FINANCE MINISTER APEL WROTE TO THE COMMISSION TO INDICATE THAT HE WAS AGAINST THE PROPOSAL, MAINLY BECAUSE OF THE BUDGETARY COSTS INVOLVED. THE COMMISSION CONSEQUENTLY DECIDED NOT TO SEEK THE FINANCE COUNCIL'S AGREEMENT IN PRINCIPLE AT THIS TIME BUT TO SUBMIT AN INTERIM REPORT INSTEAD. THE COMMISSION INTENDS TO PRESS AHEAD BUT COMMISSION OFFICIALS ESTIMATE THAT IT WILL BE AT LEAST TWO YEARS BEFORE THE EC IS PREPARED TO SET UP AN EEB. END COMMENT. MORRIS

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